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Report Highlights:

Rice and corn production will grow considerably in MY03/04 as the use of hybrids accelerates, but growth will likely slow in MY04/05 due to possible changes in agricultural policies. Food and feedgrain demand are expected to increase through MY04/05 as the Philippine population increases. Rice imports are expected to remain significant in MY03/04, but will likely decline in MY04/05 due to adequate supply. Corn imports will increase in MY03/04 and remain flat the following year, while imports of wheat will likely decline in MY03/04 and increase the following year as grain prices stabilize.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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[RP]

Executive Summary

Rice production is expected to surge in MY03/04 as adoption of hybrid rice has accelerated and favorable weather conditions prevail. Uncertainty in relation to possible effects of the upcoming national elections on agricultural policy is expected to dampen investment in the sector. Rice demand will continue to grow through MY04/05 commensurate with the rapidly growing Philippine population. Considerable spoilage in MY02/03 and MY03/04 will bloat consumption estimates but losses will decline the following market year and consumption will normalize. The country is expected to be closer to rice self-sufficiency in MY04/05 after successive years of record rice production and heavy importation. Rice imports will slightly decline in MY03/04 but will still be significant at around 1.3 MMT. The decline in imports will be more pronounced in MY04/05 and is expected to be primarily for buffer stock purposes.

Despite a damaging typhoon in July 2003, corn production in MY03/04 will dramatically increase from the previous year's MY02/03 level. Area planted is expected to be higher due to increasing prices as a result of strong feed grain demand, and better yields are expected in MY03/04. High feed wheat and corn prices in the world market are expected to favor more local corn consumption and output the following year is expected to increase as area planted to Bt corn expands. Overall production will likely slow in MY04/05 from the previous year's growth rate. Continued expansion of the Philippine population, on the other hand, will result in marginal but steady growth in consumption of food corn and milling wheat through MY04/05.

Despite higher production in MY03/04, corn imports are expected to increase in MY03/04 due to incongruities in corn production and consumption. Although overall wheat imports during the year are expected to decline from the previous year's level, feed wheat consumption is expected to increase during the year and accelerate in MY04/05. Wheat imports are expected to recover and increase during the period while imports of corn are expected to stay flat compared to the MY03/04 level.

Production

Rice

Milled rice output was adjusted upwards in MY02/03 consistent with revisions made by the Bureau of Agricultural Statistics (BAS) in its October 2003 Rice and Corn Production Survey. Paddy rice output is expected to surpass its previous year's level mainly due to good production in the regions of Cagayan Valley, Ilocos, Central Luzon, Bicol, and Caraga. The higher output is attributed to increased area planted as well as higher yields brought about by increased use of hybrid and certified seed.

For 2004, the Philippine Department of Agriculture (DA), through its Ginintuang Masaganang Ani (GMA-Golden Bountiful Harvest) rice program, hopes to attain 97 to 100 percent rice self-sufficiency. The program strongly encourages higher adoption of hybrid and certified rice seed. The DA reportedly is contemplating raising its hybrid rice target from 300,000 to 600,000 hectares to reach an acceptable level of self-sufficiency. The DA is hoping to reach a higher rice production level of 14.98 MMT, 11 percent more than last year's record harvest of 13.46 MMT of paddy rice. Post expects rice production in 2004 to exceed the previous year's output, but fall short of the DA target, considering the resources available for the year.

The DA had proposed a P20.9 (\$380.0 M) billion budget for 2004 but the Philippine Congress only approved a P15.4 B (\$280.0 M) budget for the department this year. The

approved amount is lower than last year's budget of P16.8 (\$305.4 M). The budget cut will likely negate whatever production gains may be made by increased use of hybrid rice seed as funding for other support programs, e.g., extension, credit, etc, are likely to be reduced.

On a market year basis, rice production for MY03/04 is expected to exceed the previous year's level due to an expanded area harvested and improved yields. A greater use of hybrid and certified rice seed is likely to be complemented by more favorable weather conditions in 2004. According to the DA, the tail end of the El Nino dry spell in the first half of 2003 resulted in isolated dry spells in some parts of the country which subsequently affected production. Rice harvests for both CY2004 and MY03/04 are expected to reach record levels - in the vicinity of 14 MMT.

Rice self-sufficiency is likely to be nearer DA's expectations in 2005 as imports the year before significantly increased buffer stock levels. Local production is likely to remain high, although production in MY04/05 is expected to be marginally higher than its MY03/04 output. Sustaining this level of self-sufficiency, however, is not likely to be maintained as a result of the growing food demand of the rapidly expanding Philippine population.

National elections are scheduled in May 2004, and this could affect agricultural policy, as well as agricultural program implementation in the near term. Investment in the agricultural sector is expected to slow as investors adopt a wait-and-see attitude.

Corn

Corn production estimates were increased in MY02/03 consistent with the 2003 data from the BAS although production during the market year is expected to be lower than its level the previous year.

The BAS reports that corn output in 2003 will surpass the 2002 level despite damage caused by a dry spell in the second quarter of the year as well as from the very destructive typhoon *Harurot* in July 2003 (refer to RP 3044). The typhoon significantly damaged the first commercial planting of Bt corn in Northern Luzon. Overall area planted to Bt corn is estimated to be less than 20,000 hectares in 2003. Production gains in the last quarter of 2003, however, more than compensated for the damaged third quarter corn crop. The increase in corn production is attributed to increased area harvested as well as to better yields.

Corn production in MY03/04 is expected to increase considerably from its MY02/003 output due to strong feed demand and higher use of better quality corn seed. Relatively high prevailing prices are likely to encourage more farmers to shift to high yielding corn varieties such as hybrids. Hybrid corn is estimated to be cultivated in around 500,000 hectares during the year or roughly 20 percent of total corn area planted. Contract growing schemes offered by large companies with feed milling operations are becoming popular. These companies specify and provide quality seeds and extend technical assistance, on top of the traditional buy-back guarantee.

It should be pointed out that incongruities in corn production and consumption in the Philippines exist resulting in supply and demand imbalances not accurately captured in the PSD table. Traditionally, around 60 percent of corn production is concentrated in the southern island of Mindanao with the majority harvested in the third quarter of each year. Corn demand, on the other hand, is highest (around 75 percent) on the main island of Luzon in the northern part of the country, where the majority of the feed mills, livestock and poultry farms are located. Corn production in Luzon accounts for roughly 30 percent of national corn output, the majority of which is harvested in the first semester.

The majority of the Luzon corn crop, which is harvested in the 2Q of each year, is found in the Cagayan Valley region (where damage by typhoon *Harurot* was most pronounced). The imbalance between feed demand and corn harvest in Luzon is traditionally filled by imports due to very high inter-island freight costs (see CONSUMPTION).

For MY04/05, corn output is expected to increase moderately, but like rice, will likely slow from the previous year's rate of growth. Adoption of Bt corn technology is expected to gradually improve. An estimated 50,000 hectares will be planted to the GM variety in 2004. Bt corn is expected to displace a portion of hybrid corn areas in the coming 3 – 5 years, according to the International Service for the Acquisition of Agri-biotech Applications (ISAAA). Corn production during the year, however, is still expected to fall short of overall domestic demand.

Wheat

There is no commercial wheat production in the Philippines.

Consumption

Last year, the agricultural sector grew faster (3.8 percent) than expected (3.4 percent) with total crop output rising 5.21 percent. Rice production was up 1.73 percent reaching a record 13.5 million tons before milling. The performance of the farm sector helped achieve the country's GDP growth of 4.5 percent in 2003, exceeding the previous years growth rate of 4.4 percent. Economic planners forecast GDP growth at 4.9 - 5.8 percent this year with farm production expected to improve its 2003 performance as no major weather disturbance (like the El Nino) is expected. Inflation remained at single-digit levels last year and is expected to remain as such in 2004.

Good agricultural production and overall growth of the economy will translate into continued increases in food grain consumption in MY02/03 and onwards. Rice is expected to remain as the dominant feed grain consumed although food corn and milling wheat demand are likely to post marginal increases in MY03/04 and MY04/05 due to the rapidly growing Philippine population (2.36 percent). According to the latest estimates, the population of the Philippines will reach 84 million in 2004.

While some quantities of wheat of European origin are used to blend with US wheat, it is highly unlikely to replace wheat from the United States for flour milling, according to industry contacts. Local bread manufacturers still prefer US wheat for its precise characteristics in bread making. The closest quality rival of U.S. wheat for flour milling purposes is Canadian wheat, according to industry sources.

As mentioned in GAIN RP 3007 and RP 3065, the surge in rice consumption starting MY02/03, is mainly attributed to postharvest-handling losses including spoilage of imported inferior-quality rice. Estimates on rice postharvest losses vary, although the volumes involved are quite significant. The Bureau of Post Harvest Research and Extension (BPHRE) estimates the country's total postharvest losses for rice at around 15 percent of total annual production of paddy rice. This translates to about 1.3 MMT of milled rice lost in MY03/04 and it is not surprising that the National Food Authority (NFA) has revised upwards its national daily consumption estimate for rice from 26,400 MT last year to 26,900 MT for 2004.

As a general rule, postharvest losses are highest during years of abundant supply and these have a bloating effect on consumption estimates. The decline in rice consumption in

MY04/05, therefore, will reflect more on the actual rice consumed for food and less on postharvest wastage. Actual rice consumption for food, however, will continue increasing during the period.

Rice prices (retail) for the first nine months of 2003 averaged P20.25/kg. (\$0.37), slightly higher than the average milled rice price for 2002 of P19.96/kg (\$0.37). Prices were higher in the first half of 2003 compared to the same period in 2002.

Prices Table			
Country	Philippines		
Commodity	Rice, Milled		
Prices in	Peso	per uom	Kg.
Year	2002	2003	% Change
Jan	19.30	19.92	3%
Feb	19.38	19.85	2%
Mar	19.38	19.86	2%
Apr	19.40	19.92	3%
May	19.47	20.13	3%
Jun	19.68	20.44	4%
Jul	20.14	20.70	3%
Aug	21.00	20.89	-1%
Sep	21.31	20.57	-3%
Oct	20.55		
Nov	20.02		
Dec	19.94		

Source: Bureau of Agricultural Statistics

The growth of the Philippine feed grain industry is tied to the expanding livestock, poultry and aquaculture industries. Yellow corn is the dominant feed grain used, constituting about 40 percent of the production cost of swine and 60 percent of poultry. It is the preferred feed grain by the feed milling industry, but inadequate supply has resulted in the increasing use of corn substitutes such as feed wheat.

Corn demand increased slightly in MY02/03 due to higher than expected corn production as reported by the BAS.

Shifting in yellow corn and feed wheat consumption are expected in the next two years, but overall feed grain demand is expected to increase. Although it suffered a slowdown in 2003, the domestic poultry industry is expected to recover in MY03/04 due to recent bans on poultry meat imports from most Asian countries in response to the Avian flu outbreaks. Relatively high hog prices, are also likely to enhance swine production during the year. Local meat demand is expected to remain strong in 2004 despite these developments.

Feed corn demand is expected to surge during the year as local production increases, with some shifting away from feed wheat likely. Tighter global wheat supply and increasing feed wheat prices (faster than that of corn prices) are expected to fuel feed corn demand in MY03/04. Renewed weakness of the Peso likewise will dampen growth of feed wheat use by

the feed-consuming sectors during the year. All these favor the use of more local corn in feed rations.

As mentioned in the Production Section, disparities in timing, location of corn production, and consumption patterns exist, and shortages may prevail in a particular area when, in fact, there is adequate supply. Studies show that it costs P1.81 (\$0.04) to move a kilogram of corn, or P1,810 (\$32.91) per ton, from a farm in Valencia, Bukidnon, in Mindanao to a wholesaler/buyer in Caloocan City, Metro Manila. Oftentimes, due to these disparities in transportation cost, it is cheaper for a feed miller in Luzon to import corn than to buy local corn from Mindanao (see TRADE).

Lack of appropriate postharvest infrastructure is evident in the high cost of transporting corn. Postharvest losses for corn are likewise significant and are included in consumption estimates. Losses are likely to be lower than that of rice, however.

Average yellow corn price for the first nine months of 2003 was P8.49/kg. (\$0.16), lower than the average price of P9.28/kg. (\$0.17) in 2002. Corn prices started to increase in the last quarter of 2003 as a result of significant damage to the corn crop by typhoon *Harurot*. Philippine feed millers and hog raisers have since petitioned the GRP for more corn imports (see TRADE).

Prices Table			
Country	Philippines		
Commodity	Corn		
Prices in	Peso	Per uom	Kg.
Year	2002	2003	% Change
Jan	9.28	8.49	-9%
Feb	8.85	8.53	-4%
Mar	9.38	8.35	-11%
Apr	8.76	8.26	-6%
May	8.65	8.42	-3%
Jun	9.06	8.58	-5%
Jul	9.30	8.71	-6%
Aug	8.76	8.53	-3%
Sep	8.62	8.50	-1%
Oct	8.14		
Nov	9.05		
Dec	8.40		

Source: Bureau of Agricultural Statistics

For MY04/05, corn demand will likely continue to increase but is expected to slow from the previous year's growth rate. Feed wheat use, on the other hand, is predicted to accelerate from its MY03/04 level. This is based on the premise that corn and wheat prices will stabilize.

Trade

The GRP has approved a total of 810,000 MT of milled rice imports for 2004. The NFA will bring in 500,000 MT while farmer groups have been allocated 310,000 MT. Smuggled rice is expected to decline from the previous year's level due to adequate stocks and more vigilance by the GRP in curbing the practice. An assumed 140,000 MT of undocumented rice imports are still expected in MY03/04. Coupled with the dramatic production increase expected in MY03/04, the situation should result in reduced imports during the year. Rice imports during the year do not include U.S. rice supplied under various food aid programs of USDA.

The FY03 PL480 Title 1 Agreement was signed in July 2003 and amounted to a \$40 million rice package. It resulted in the procurement of 118,000 MT rice and was the single largest country allocation during the fiscal year. A small portion of NFA's procurement was fortified rice. The purchase of fortified rice was in response to a local fortification law (See POLICY). The entire rice volume under the FY03 Agreement is expected to arrive in the first quarter of 2004.

Rice imports in MY04/05 are expected to decline from the previous year's level, as production will remain high and illegally imported rice will likely decline. Rice imports during the year will likely be brought in by the NFA duty free to beef up buffer stock levels. Rice imports for both MY03/04 and MY04/05 are likely to come from Vietnam, Thailand and China.

Rice tariffs will remain unchanged through 2005 from their 2003 level of 50 percent except for paddy rice seeds that are suitable for sowing, which may be brought in duty-free.

For corn, estimates of imports in MY02/03 were raised consistent with data from the National Statistics Office (NSO). The imported corn during the period was mainly from the United States and China.

Although corn production is expected to increase considerably during MY03/04, market year imports are still expected to increase from their year-ago levels due to strong demand by the feed consuming sectors, as well as an expected decline in feed wheat imports. A feed corn deficit as the result of damage by typhoon *Harurot* prompted the NFA to tender for the importation of 150,000 MT in October 2003. That volume is the first tranche of the proposed 300,000 – 350,000 MT importation to cover losses from the typhoon. The tender did not succeed, however, as bids were considered too high. As a result, buying prices of yellow corn in Luzon increased. The higher prices likewise resulted in higher prices of poultry meat and pork prices (see POLICY).

In late 2003, wheat prices increased as a result of the decline in available feed wheat supplies from India, China and Eastern Europe. Because of this, overall wheat imports in MY03/04 are likely to decline from their previous year's level as local feedmillers use more local feed corn. Australian wheat is expected to increase its market share during the year. Milling wheat imports are likely to remain flat from the previous market year's level, and U.S. wheat is expected to dominate the market. Canadian wheat, however, may be close behind. While milling wheat from European sources may offer competitive rates, industry contacts say the cost of freight is more.

In the following market year, overall wheat imports are likely to recover and increase as global wheat supply improves and prices stabilize. Corn imports, on the other hand, are expected to remain flat in MY04/05 compared to the year before.

Food wheat will be assessed a 3 percent tariff rate through 2005, unchanged from its 2003 level while feed wheat will be levied a uniform 7 percent rate. Like feed wheat, in-quota

feed corn imports will be charged a 35 percent duty through 2005, unchanged from its 2003 level, while corn imports outside the tariff quota will be levied a 50 percent tariff through 2005. Out-quota corn tariffs were 65 percent during the 2003 January to June 30 period, but declined to 50 percent if it arrived between July 1 to December 31 of 2003.

Policy

In the field of biotechnology, eight corn varieties representing all GE corn varieties grown in the United States with export potential to the Philippines, were added to the list of approved transformation events under Administrative Order No. 8 (AO 8) on August 2003. Under AO8, all GE plant varieties ("regulated article") must be assessed for food, feed and environmental safety by a third party panel of Philippine scientists prior to entering the Philippines. The approval allows access of all U.S. GE corn to the Philippine market.

After the failed NFA bidding of 150,000 MT of corn in October 2003, Philippine feed millers and hog raisers, in early 2004, requested DA's approval to import 300,000 – 350,000 MT of yellow corn to address the increasing prices of feeds and meat. Local corn farmers, however, objected to the proposal saying the arrival of the imported corn would coincide with the harvest season in Northern Luzon. The request is currently under review by the DA and the Office of the President (OP).

Republic Act 8976 (RA 8976) or the Philippine Food Fortification Law of 2000, requires that all staple foods - rice, sugar, flour, salt and cooking oil – be fortified with Vitamin A, iron or iodine. RA 8976 is to be fully implemented on Nov. 7, 2005. The law applies to all manufacturers or producers, importers, traders, tollees, retailers, repackers of staple foods, as well as restaurants and food service establishments where such fortified food products are likely to be served. Post believes these sectors are not yet equipped with the adequate technology and infrastructure to implement the law (see MARKETING) and expect that the implementation date of RA 8976 may be deferred.

In June 2003, acknowledging the potential of rice hybrids in raising local production, President Gloria-Macapagal-Arroyo signed Executive Order No. 219 (EO 219), returning the Philippine Rice Research Institute (PhilRice) from the OP, to the DA to allow for closer supervision. PhilRice was originally attached to the DA as provided for by EO 161 of November 1985, which established the agency. When President Arroyo assumed office in January 2001, she issued EO 76 which amended EO 161 and placed PhilRice under the OP.

PSD Table						
Country	Philippines					
Commodity	Corn			(1000 HA) (1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2002		07/2003		07/2004
Area Harvested	2375	2375	2450	2485	0	2550
Beginning Stocks	352	352	202	262	102	250
Production	4300	4430	4400	4845	0	5000
TOTAL Mkt. Yr. Imports	100	130	250	200	0	200
Oct-Sep Imports	100	170	250	180	0	200
Oct-Sep Import U.S.	11	11	0	10	0	100
TOTAL SUPPLY	4752	4912	4852	5307	102	5450
TOTAL Mkt. Yr. Exports	0	0	0	0	0	0
Oct-Sep Exports	0	0	0	0	0	0
Feed Dom. Consumption	3050	3150	3200	3525	0	3650
TOTAL Dom. Consumption	4550	4650	4750	5057	0	5200
Ending Stocks	202	262	102	250	0	250
TOTAL DISTRIBUTION	4752	4912	4852	5307	0	5450

PSD Table						
Country	Philippines					
Commodity	Rice, Milled			(1000 HA) (1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2002		07/2003		07/2004
Area Harvested	4100	4100	4100	4115	0	4000
Beginning Stocks	3407	3407	3807	3807	3747	3945
Milled Production	8450	8450	8840	9098	0	9100
Rough Production	13000	13000	13600	13997	0	14000
MILLING RATE (.9999)	6500	6500	6500	6500	0	6500
TOTAL Imports	1500	1500	1350	1290	0	350
Jan-Dec Imports	1300	1300	1000	900	0	50
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	13357	13357	13997	14195	3747	13395
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consumption	9550	9550	10250	10250	0	9915
Ending Stocks	3807	3807	3747	3945	0	3480
TOTAL DISTRIBUTION	13357	13357	13997	14195	0	13395

PSD Table						
Country	Philippines					
Commodity	Wheat			(1000 HA) (1000 MT)		
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]
Market Year Begin		07/2002		07/2003		07/2004
Area Harvested	0	0	0	0	0	0
Beginning Stocks	350	350	400	350	300	200
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	3000	2900	2800	2800	0	3100
Jul-Jun Imports	3000	2900	2800	2800	0	3100
Jul-Jun Import U.S.	1500	1300	0	1300	0	1350
TOTAL SUPPLY	3350	3250	3200	3150	300	3300
TOTAL Mkt. Yr. Exports	50	0	50	0	0	0
Jul-Jun Exports	50	0	50	0	0	0
Feed Dom. Consumption	1250	1250	1100	1275	0	1375
TOTAL Dom. Consumption	2900	2900	2850	2950	0	3075
Ending Stocks	400	350	300	200	0	225
TOTAL DISTRIBUTION	3350	3250	3200	3150	0	3300